(19)

No. 04-480

Supreme Court, U.S.
FILED
JAN 24 2005
OFFICE OF THE CLERK

In the Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS, INC., ET AL.,
Petitioners,

v.

GROKSTER, LTD., ET AL.,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF THE DIGITAL MEDIA ASSOCIATION, NETCOALITION, THE CENTER FOR DEMOCRACY AND TECHNOLOGY, AND THE INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA AS *AMICI CURIAE* IN SUPPORT OF NEITHER PARTY

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BRIEF OF THE DIGITAL MEDIA ASSOCIATION, NETCOALITION, THE CENTER FOR DEMOCRACY AND TECHNOLOGY, AND THE INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA AS *AMICI CURIAE* IN SUPPORT OF NEITHER PARTY

INTEREST OF THE *AMICI CURIAE*[1]

The Digital Media Association ("DiMA") is a trade association composed of 20 member companies that create, license, sell, and use Internet-based and digital technologies that allow or facilitate the programming and distribution of lawful digital music and other media products and services. DiMA members include America Online, Apple Computer, CNET Networks, DMusic, Gibson Audio, Liquid Digital Media, Live365, Mercora, Microsoft, Motorola, Music Choice Europe, MusicNow, MusicRebellion, Napster, NativeRadio.com, Onion River Radio, Orb Networks, RealNetworks, RuckusNetwork, and Yahoo!.

NetCoalition serves as the public policy voice for some of the world's most innovative Internet companies, including Google, Yahoo!, CNET Networks, and Bloomberg. NetCoalition provides creative and effective solutions to the critical legal and technological issues facing the Internet. By enabling industry leaders, policymakers, and the public to engage directly in the consideration of these issues, NetCoalition has helped to ensure the integrity, usefulness, and continued expansion of this dynamic new medium.

The Center for Democracy and Technology ("CDT") is a non-profit public interest group dedicated to promoting civil

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[1] The parties' letters of consent to the filing of this brief have been lodged with the Clerk. Pursuant to Rule 37.6 of the Rules of this Court, *amici curiae* state that no counsel for a party has written this brief in whole or in part and that no person or entity, other than *amici*, their members, or their counsel, has made a monetary contribution to the preparation or submission of this brief.

liberties online. CDT represents the public's interest in an open, decentralized Internet reflecting the constitutional values of free expression, privacy, and individual liberty.

The Information Technology Association of America ("ITAA") provides 380 corporate members with global public policy, business networking, and national leadership that promotes the continued rapid growth of the IT industry. ITAA members range from the smallest IT start-ups to industry leaders in the Internet, software, IT services, digital content, systems integration, telecommunications, and enterprise solution fields.

Amici represent some of the most technologically innovative companies in America today. Their members' offerings include portable music devices (such as Apple's iPod), music subscription services (such as Real Networks' RealRhapsody), digital rights management technology (such as Microsoft's Windows Media DRM), instant messaging products (such as those by Yahoo!, AOL, and Microsoft), and myriad other email, web browsing, and Internet communications technologies. *Amici* also include a non-profit group representing the broad public interest in protecting copyright consistent with the openness and innovation that have been vital to realizing the democratic potential of new digital media.

Amici do not condone – indeed, they strongly condemn – the use of peer-to-peer technologies to violate copyright law. Neither, however, do *amici* support the substantial broadening of the standards for secondary liability that petitioners urge this Court to adopt. *Amici* submit this brief to apprise the Court of the dangers to technological innovation, free expression, and democratic values online that are posed by petitioners' position.

Amici urge this Court to reaffirm and clarify the reasoning set forth in this Court's decision in *Sony Corp.* v. *Universal City Studios*, 464 U.S. 417 (1984). Without the crucial protections for technology innovators recognized in *Sony*, courts would be put in the untenable position of deciding when a provider of novel technology has "done enough" to prevent intentional

misuse by others. Worse yet, courts would be called upon to balance the theoretical cost-efficiency of potentially unproven design changes that a technology provider might make to reduce the risk that technology users might violate the copyright laws. Under such a regime, technology companies would rightly innovate with great trepidation, training one eye toward the potential liability their new technologies could incur if abused by purchasers, licensees, or sub-licensees. Inevitably, technological progress would be impeded, as the potential for secondary liability would cause innovators to withhold technologies and product features that would benefit legitimate users. In the long run, innovation – and therefore society as a whole – would suffer.

Amici submit this brief to explain how the twin goals of protecting copyright and protecting legitimate innovators are both profoundly important, and why *Sony* provides exactly the right approach to ensuring continued harmony between innovators and copyright owners.

INTRODUCTION AND SUMMARY OF ARGUMENT

All technologies that enable the distribution of information – from the typewriter to the tape recorder, copy machine, VCR, and cellular phone – may be used to infringe copyrighted works. In the digital world, too, computer operating systems, programs for recording and playing music, e-mail programs, compact discs, and peer-to-peer technology may be used to infringe copyrights. At the same time, all of these technologies have important and far-reaching legal uses, the full extent of which is inherently unpredictable.

Copyright law must therefore strike a careful balance between protecting copyright owners and shielding innovative companies from secondary liability resulting from the misuse of their novel technologies (which include products as well as services). In *Sony Corp.* v. *Universal City Studios*, 464 U.S. 417 (1984), this Court struck that balance correctly, holding that distribution of technology does not give rise to liability for

copyright infringement so long as the technology is "merely * * * capable of substantial noninfringing uses." *Id.* at 442. That legal framework has contributed significantly to twenty years of unprecedented technological advance – a period that has witnessed the rise and proliferation of compact discs, personal computers, cellular phones, work and home networks, on-demand information and the Internet.

The explosion of innovation enabled by *Sony* has had three salient characteristics. *First*, digital technology is now a central part of the everyday lives of average Americans. At work we are more productive, composing documents on personal computers; searching for information on the Internet; communicating with colleagues across the hall and around the world by e-mail; and maintaining our calendars with personal digital assistants. At home, we record our favorite television shows for later viewing on personal video recorders; we check our stock portfolios and buy airline tickets online; and we communicate with friends and relatives through instant messaging. And when in transit, we use portable music players to listen to our favorite music and cell phones to ask what to buy at the grocery store or what movie is playing at the local multiplex.

Second, each technology has advanced in a series of rapid incremental steps, building on previous innovations. Every twelve to eighteen months, Intel has released a new microprocessor that was significantly faster than the previous version. Computer storage capacity has increased dramatically each year. The speed of Internet connectivity has progressed incrementally from 28k modem to 56k modem to DSL and cable modem. As a result, *amici*'s members now provide users with many valuable new technologies (both products and services), most of which existed only in the imagination of computer scientists at the time of the *Sony* decision. *Sony* permitted each of these rapid, incremental innovations by shielding companies (and their shareholders) from copyright

litigation so long as technological innovations were capable of substantial noninfringing use.

Third, the digital technologies that owe their existence to *Sony* have helped to bring about a revolution in communications and free expression in the digital age. Today these technologies foster free expression and First Amendment values by playing an indispensable role in the most speech-enabling medium in our history. "As the most participatory form of mass speech yet developed, the Internet deserves the highest protection from governmental intrusion." *ACLU* v. *Reno*, 929 F. Supp. 824, 883 (E.D. Pa. 1996) (Dalzell, J., concurring), aff'd, 521 U.S. 844 (1997). The World Wide Web might never have achieved the broad popularity it has if designers of web server software faced the copyright challenges that *Sony* foreclosed.

Despite the overwhelming success of the *Sony* standard in striking the proper balance between protecting copyright and encouraging innovation, confusion has arisen in the lower courts regarding, among other things, the relationship between *Sony*'s "substantial noninfringing use[]" test and the Court's reference elsewhere in the opinion to the existence of "commercially significant noninfringing uses" for the Betamax. 464 U.S. at 442. Read properly, the latter reference is but one way of applying the "substantial noninfringing use" test of *Sony*. In other words, demonstration of a commercially significant noninfringing use is sufficient to show that a product is capable of substantial noninfringing use, but is not necessary to make that showing. Thus, a court may find that a technology falls within *Sony*'s safe harbor without complex analysis of the degree to which its profitability "depends" on one or another type of use. Pet. 19. Petitioners' proposed tests, which focus on the proportion of infringing use and the subjective intent of the product's distributor, are not faithful to *Sony* and would create a deeply flawed, subjective standard that would chill technology development by legitimate companies such as *amici*'s members.

Nevertheless, Grokster's conduct in this case may well give rise to liability. Although the *Sony* defense shields technology

vendors' design, manufacture, distribution, general advertising, and routine support activities from secondary liability, that safe harbor does *not* extend to a vendor's other conduct. Rather, such other conduct is evaluated according to traditional principles of secondary liability, with remedies for any liability narrowly tailored to address the infringing acts that the vendor's conduct encouraged.

This is the point missed by both the court below and the Seventh Circuit in *In re Aimster*, 334 F.3d 643 (2003), cert. denied, 640 U.S. 1107 (2004). The Seventh Circuit held the designer of a peer-to-peer file-sharing technology liable for contributory copyright infringement, but it did so only after abandoning the *Sony* rule in everything but name. In contrast, in the decision below, the Ninth Circuit reached a different but equally flawed result. Based on a stipulation that 10% of the files shared using Grokster's technology constituted noninfringing uses, the court concluded that the legitimate portion was sufficient to meet the *Sony* test, and thus to preclude secondary liability *on any basis*. Accordingly, the Ninth Circuit held that the copyright owners' only recourse was to sue direct infringers individually. Both courts got it wrong, because neither recognized that *the* Sony *defense does not apply to other conduct that might give rise to liability under traditional secondary liability standards.*[2] The Seventh Circuit could almost certainly have held Aimster liable on precisely that theory; there was no need to abandon the *Sony* doctrine to reach the correct outcome. Similarly, in this case, the Ninth Circuit affirmed summary judgment for Grokster without determining

[2] As explained in detail below, this brief draws a distinction between two types of conduct. Neutral conduct, which relates to the design, manufacture, distribution, and routine operation and support of a technology (by its vendor or distributor), falls within the *Sony* defense to contributory liability if the technology is capable of substantial noninfringing uses. In contrast, conduct that actively encourages users to violate copyright is not protected by *Sony*, but is instead evaluated according to traditional secondary liability doctrines, including whether the requisite level of scienter or knowledge has been proven.

whether the record contained evidence of active encouragement of copyright infringement.

In short, the balance the Court struck in *Sony* is as viable today as it was twenty years ago. The Court need only clarify certain ambiguities in *Sony* to ensure both that copyright holders retain the full protection granted to them by Congress and that American technological leadership continues on its remarkable trajectory, free from the specter of uncertain secondary liability for copyright infringement.

ARGUMENT

It is critical to preserve the *Sony* defense, which allows technology vendors to innovate without fear of liability imposed simply because their socially valuable technologies are misused by third parties to infringe copyright. This Court should emphatically reject the Seventh Circuit's attempt to engraft a nebulous balancing test onto the venerable *Sony* defense, and it should also make clear that courts ought not to inquire into whether a technology might have been designed differently to reduce or eliminate infringement. No such radical surgery is necessary because, when properly understood, the *Sony* defense offers no shelter to rogue companies for conduct that actively encourages their users to infringe.

I. *Sony* Shields Conduct Relating To Technology Design, Manufacture, Distribution, And Routine Advertising And Support, But Not Active Encouragement Of Copyright Infringement

When properly understood, the *Sony* framework preserves robust copyright protections while at the same time allowing innovators to design socially valuable technologies without fear of legal repercussions. Unfortunately, recent lower court decisions betray a lack of understanding about *Sony*'s core reasoning, and it is these misapprehensions that have led tribunals like the Ninth Circuit to conclude that the law affords no copyright protection against companies such as Grokster. To

see where these lower courts have gone astray, it is necessary first to analyze this Court's decision in *Sony*.

Sony's Betamax technology, which was popular in the late 1970s and early 1980s, was the first version of the modern VCR: it allowed home television viewers to record programs when they were initially broadcast, and enabled them to replay those recorded programs at a later time. It also permitted users to manipulate the replays through pause, rewind, and fast-forward functionality. Because virtually all television broadcasts were copyrighted by their producers, use of Betamax machines led to the duplication of copyrighted materials on an unprecedented scale.

A group of copyright owners ("the Producers") filed suit against Sony alleging that, by selling the Betamax, it had materially contributed to home viewers' copyright infringement in at least two ways. *First*, the Betamax enabled "time-shifting," the practice of recording a program when it is broadcasted and playing it back later. That use was particularly appealing to consumers because it granted them a degree of control over their viewing schedules, and also allowed them to view two programs broadcasted simultaneously by watching one "live" while recording the other. 464 U.S. at 422. *Second*, the Betamax allowed viewers to create libraries of previously recorded copyrighted programming. *Id.* at 423. It also enabled viewers to fast-forward through commercials, thereby reducing the Producers' ability to sell those commercials.

A. What The *Sony* Court Said

The Court acknowledged at the outset that "[t]he Copyright Act does not expressly render anyone liable for the infringement committed by another." 464 U.S. at 434. Nevertheless, the Court determined that a technology provider can be secondarily liable for copyright infringement where it has the type of "direct involvement" with infringing activity that would give rise to liability under traditional principles of contributory and vicarious liability. *Id.* at 447. "[V]icarious liability," the Court

explained, "is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another." *Ibid.*[3]

Having concluded that secondary copyright infringement was a viable theory of liability, the Court nevertheless recognized that the Producers' application of that theory was unprecedented. Although certain lower courts had found contributory infringement in copyright cases involving an "ongoing relationship" between the direct and contributory infringers, 464 U.S. at 437, "the only contact between Sony and the users of the Betamax * * * occurred at the moment of sale." *Id.* at 438. Moreover, the district court had found "no evidence

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[3] The Seventh and Ninth Circuits have reached conflicting conclusions on the question whether the *Sony* defense applies *only* to contributory liability (or instead to both contributory and vicarious liability). Compare *A&M Records, Inc.* v. *Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001) (contributory liability only) with *In re Aimster Litigation*, 334 F.3d 643, 654 (7th Cir. 2003) (both). In *amici*'s view, the Court's opinion in *Sony* is properly understood to apply to *both* forms of secondary liability – and the Court should use this case to clarify this point. As Judge Posner correctly noted (334 F.3d at 654), the *Sony* opinion appears to use contributory and vicarious liability interchangeably. Moreover, the district court in *Sony* separately analyzed the issues of contributory and vicarious liability, see *Universal City Studios, Inc.* v. *Sony Corp. of America*, 480 F. Supp. 429, 459-62 (C.D. Cal. 1979), and this Court was well aware that both theories were being advanced (and discussed them both under the rubric of "liab[ility] for infringement committed by another" (464 U.S. at 434-35)). In concluding that the *Sony* defense applies only to contributory liability, the Ninth Circuit cited only (1) a treatise on copyright law that, in fact, did *not* endorse any such limit on *Sony*; and (2) a practitioner's article (written for a conference of the Practicing Law Institute) that, in turn, relied on nothing other than the RIAA's appellate brief in the *Napster* case. See 239 F.3d at 1022. In *amici*'s view, there is no sound legal or public policy reason for drawing a distinction between contributory and vicarious liability for purposes of the *Sony* defense.

that any of the copies made by [the Betamax users] were influenced or encouraged by [Sony's] advertisements." *Ibid.* (internal quotations omitted).

Because the Copyright Act contained no mention of secondary liability, the Court sought guidance from the patent laws, and in particular from 35 U.S.C. § 271, which defines the concept of contributory infringement in that setting. The Court drew two conclusions. *First*, the Patent Act's prohibition against contributory infringement does not allow a patentee to enlarge his monopoly by objecting to a technology offering that, while infringing his patent, "might [also] be used [legally] in connection with other patents." 464 U.S. at 440. *Second*, the Patent Act "expressly provides that the sale of a 'staple article or commodity of commerce suitable for substantial noninfringing use' is not contributory infringement." *Ibid.* Together, these rules mean that if a technology is capable of substantial noninfringing uses, courts will not allow a patentee to obstruct *others'* use of that technology merely because the technology could also be used to infringe his patent. In other words, although the protection of patents is important, it cannot trump others' rights to engage in legitimate commerce.

This Court "recognize[d] that there are substantial differences between the patent and copyright laws," 464 U.S. at 442, but concluded that similar policy interests were at stake in the two settings. It therefore imported the "staple article of commerce" concept into copyright law, explaining that the doctrine "must strike a balance between a copyright holder's legitimate demand for effective – not merely symbolic – protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." *Ibid.* The Court then announced the defense under which American technological innovation has flourished for two decades:

> [T]he sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be *capable of substantial noninfringing uses*.

Ibid. (emphasis added).

Next, the Court applied its "substantial noninfringing uses" rule to the Betamax machines by inquiring "whether the Betamax is capable of commercially significant noninfringing uses." 464 U.S. at 442. Because the Court shifted from the "substantial" formulation to a "commercially significant" formulation seamlessly and without comment – indeed, the two formulations are contained in consecutive sentences – it clearly regarded them as equivalent. Since "one potential use of the Betamax plainly satisfie[d] this standard, however it is understood," the Court saw no need to "give precise content to the question of how much use is commercially significant." *Ibid.* It thus held that Sony was not secondarily liable for Betamax users' direct copyright infringement.

B. Interpreting And Clarifying The Literal Language Of The *Sony* Rule

The *Sony* Court's failure to give content to the rule it established has spawned confusion in the lower courts on two issues: what significance, if any, to accord to this Court's alternate use of the terms "substantial" and "commercially significant," and whether "capable of" requires courts to imagine even remote possibilities.

1. The substantiality test, not commercial significance, is the true *Sony* rule. Courts, litigants, and commentators have struggled to make sense of *Sony*'s alternate formulations, questioning whether any difference was intended, what sense of "commercial" the Court contemplated, and how "significance" should be measured in any particular context. This case illustrates the confusion. The district court found that there were substantial noninfringing uses for the Grokster software, such as distributing free songs and the works of Shakespeare, without examining (or even mentioning) whether those uses were "commercially significant." See Pet. App. 33a. In

affirming, the Ninth Circuit reasoned that "the Software Distributors have not only shown that their products are capable of substantial noninfringing use, but that the uses have *commercial viability*." *Id.* at 12a (emphasis added). Certain commentators have seized on this "commercial viability" rubric as a way to give content to the *Sony* "commercially significant" formulation. See, *e.g.*, Feder, *Is* Betamax *Obsolete?* Sony Corp. of America *v.* Universal City Studios, Inc., *in the Age of Napster*, 37 CREIGHTON L. REV. 859, 899 (2004).

If the *Sony* Court had meant to establish two distinct standards, it would doubtless have said so. Instead, the majority shifted from substantiality to commercial significance in consecutive sentences without comment, making clear that it considered "commercially significant" to be a fact-specific application of the broader term "substantial."

The critical point is that *substantiality, not commercial significance, is the actual Sony rule.* It is entirely possible for a use of a technology to be "substantial" without involving a commercial marketplace. For example, a disaster-relief non-profit organization might offer a peer-to-peer service to allow field volunteers to share information among themselves. Similarly, a student might devise an innovative file compression algorithm and make it available for public download. Neither of these services would be "commercial" in the sense of being market-oriented, yet surely both could generate substantial noninfringing use.

Even technologies offered to the marketplace by for-profit companies can be "commercially significant" without generating any direct revenue. "Commerce" is not only the sale of goods and services; rather, in this Court's words, "'[c]ommerce' is intercourse; [even] in its most limited meaning it embraces traffic." *Gibbons* v. *Ogden*, 22 U.S. (9 Wheat.) 1, 189 (1824). It is, in other words, trade or interaction, and it has no necessary relationship to revenue or profit. Thus, even if the noninfringing uses of a technology do not generate revenue, that does not imply that the vendor is a secondary infringer.

Needless to say, any interpretation of the *Sony* rule that would require a technology to be "commercially viable" is inappropriate to the extent that it requires revenue or profitability. *Amici* are concerned that if the Court conducts a "commercial significance" inquiry in this case without clearly explaining that "commerce" and "revenue" are distinct concepts, subsequent courts will equate the two and allow liability merely because a technology is not profitable or revenue-generating. Should that occur, legitimate organizations that offer socially valuable technologies and services would face the risk of enormous secondary liability.

Legal doctrines aside, there also are compelling practical reasons to eschew any standard that turns on a technology's revenue production. Any rule that requires speculation about whether a particular technology offering could be profitable or commercially viable would yield far more questions than answers. Moreover, many of the technologies that would face contributory infringement allegations would be too novel to permit a satisfactory analysis of their true market potential.

In short, although there are circumstances in which the "commercially significant noninfringing use" inquiry is an accurate application of *Sony*'s "substantial noninfringing use" rule, the danger of its misapplication is significant. *Amici* strongly urge the Court to clarify that the "substantial noninfringing uses" test is the true *Sony* rule.

2. In *Aimster*, the Seventh Circuit worried that, if the "capable of" standard in *Sony* were read literally,

> all Aimster has to show in order to escape liability for contributory infringement is that its file-sharing system *could* be used in noninfringing ways, which obviously it could be. Were that the law, the seller of a product or service used *solely* to facilitate copyright infringement, though it was capable in principle of noninfringing uses, would be immune from liability for contributory

infringement. That would be an extreme result, and one not envisaged by the *Sony* majority.

334 F.3d at 651.

Judge Posner is certainly right that almost any technology offering might be deemed "capable of" substantial noninfringing use if considered with sufficient imagination, and *amici* agree that the *Sony* Court did not intend to craft a meaningless standard. At the same time, however, recent history is replete with examples of novel technologies that arrived years before their primary markets emerged or flourished – VCRs and Internet search engines being prime examples of late bloomers.

Viewed sensibly, the "capable of" phrase merely encourages courts to consider whether there exists a reasonable possibility that there will be substantial use of a technology offering for noninfringing activities. Its message is cautionary: because new technologies often meet with confusion, resistance, fear, or even hostility, courts should be circumspect in deciding that a novel offering is unlikely ever to provide real value to society. Simply put, judges entertaining claims of secondary liability based on new technologies should err on the side of caution, resisting the instinct to infer that the future use of a technology will invariably be limited to its present use. To do otherwise would impede the course of technological progress and innovation.

3. Given the evident confusion surrounding the "capable of" and "substantial noninfringing use" formulations, *amici* respectfully offer for the Court's consideration a reformulation that would materially preserve the present state of the law while bringing needed clarity: *If there exists a reasonable possibility that there will be substantial current or future use of a technology for noninfringing activities, the provider of that technology is not secondarily liable for copyright infringement even though users misuse it.* However, where the provider has actively encouraged specific acts of infringement, such conduct,

if coupled with knowledge of infringement, can give rise to liability under the traditional doctrines of secondary liability.[4] In that situation, liability is imposed not because the vendor provided the technology – conduct that continues to be immunized under *Sony* – but rather because the provider's conduct encouraged specific infringing uses of the technology.

The proposed reformulation has several virtues to recommend it. *First*, by clearly encouraging courts to focus on reasonable possibilities for actual use, it limits the need to speculate about purely theoretical technological capabilities, a singularly imprecise task and one that makes doctrinal consistency difficult to achieve. *Second*, it is safely applicable to technology offerings without regard to whether they generate revenue.

Finally, this reformulation preserves a court's discretion to acknowledge *qualitatively* significant noninfringing uses that may not be *quantitatively* significant. For example, an instant messenger technology might allow video to be broadcast from a handheld device, such as a cell phone or personal data assistant. That technology would enable users to broadcast infringing video from a movie theater, but it would also allow soldiers in the field to send video intelligence in real time and would be highly useful in search-and-rescue operations. Therefore, even if the infringing broadcasts significantly outnumbered the noninfringing broadcasts, the qualitative significance of the noninfringing uses should satisfy the *Sony* test.

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[4] "Active encouragement" is not used as a new standard of liability, but rather as a description of the narrow category of conduct that may constitute the kind of material contribution to infringement potentially giving rise to liability under traditional standards.

C. Conduct That Falls Outside The *Sony* Defense May Give Rise To Liability Under Traditional Theories Of Secondary Liability

The *Sony* Court answered *only* the narrow question whether a technology provider can be held liable for the design, manufacture, distribution, general advertising, and routine support of an offering, for no other facts were presented. The Court took pains to note that it was not possible for Sony directly to encourage Betamax users, for "[t]he only contact between Sony itself and the users of the Betamax * * * occurred at the moment of sale." *Id.* at 438. Likewise, "no *employee* of Sony * * * had either direct involvement with the allegedly infringing activity or direct contact with purchasers of Betamax who recorded copyrighted works." *Ibid.* (internal quotations omitted). Finally, Sony did not encourage infringement through its marketing, for the record contained no "evidence that any of the copies made by [the Betamax users] in this suit were influenced or encouraged by [Sony's] advertisements." *Ibid.* (internal quotations omitted).

Because the record reflected no action on Sony's part to encourage Betamax users to infringe copyrights, this Court's decision did not address whether liability could be imposed for such encouragement.[5] The lower courts, however, have

[5] The patent laws – which the *Sony* Court relied on by analogy in recognizing liability for contributory copyright infringement – confirm that the *Sony* defense does not shield conduct that actively encourages infringement. The Patent Act contains two relevant subsections:

> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever sells a component of a patented machine * * * for use in practicing a patented process * * * knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(b), (c). As the text of subsection (c) makes clear,

repeatedly held that a technology provider can be liable for contributory infringement if it actively promotes infringing uses of its offering. See, *e.g.*, *Cable/Home Communication Corp.* v. *Network Productions, Inc.*, 902 F.2d 829, 837-39 (11th Cir. 1990) (developer liable for promoting television signal descrambling chips); *Sega Enterprises, Ltd.* v. *MAPHIA*, 948 F. Supp. 923, 933 (N.D. Cal. 1996) (Internet bulletin board operator liable for actively encouraging users to upload copyrighted games). The *Sony* defense must be understood against this backdrop of settled law.

The importance of this point is difficult to overstate. Even if a technology vendor is able to show that its offering has substantial noninfringing uses, *the* Sony *defense does not shield a vendor who, with knowledge of infringement, actively encourages users to infringe copyrights using its technology.* Such conduct must instead be evaluated under the "material contribution" prong of the traditional test of contributory liability. As explained in greater detail below, the district court's failure to analyze potential acts of "active encouragement" in this case warrants a remand to allow the lower courts to consider, in the first instance, respondents' conduct independent of the *Sony* defense.

Because the record in this case is limited, this Court should not use this case to elaborate upon the circumstances in which

liability as a contributory patent infringer is permitted *only* when the component of the patented machine or process is "not a staple article * * * of commerce suitable for noninfringing use." *Id.* § 271(c). Although noninfringing uses might immunize the seller of a component under subsection (c) – the source of the *Sony* defense to contributory copyright infringement – the seller can still incur liability if he engages in *other* actions that *induce* infringement, a subject separately addressed by subsection (b). See, *e.g.*, *Dynacore Holdings Corp.* v. *U.S. Philips Corp.*, 363 F.3d 1263 (Fed. Cir. 2004). This confirms that the *Sony* defense cannot (or should not) be stretched to insulate from liability not only the design, manufacture, distribution, and routine support of technology, but also conduct that actively encourages consumers to infringe copyrights.

secondary liability may be imposed for active encouragement of infringement. It need only recognize that this case does not necessarily end simply because respondents may not be held liable merely for the distribution of technologies with substantial noninfringing uses.

If this Court were to address the scope of secondary liability for active encouragement of infringement, however, it should make clear that this form of liability must be narrowly crafted. In particular, the Court should clarify the types of conduct that are *not* sufficient to give rise to secondary liability. As it happens, petitioners' submissions at the petition stage provide a long list of such examples. See Pet. 4-8. *First*, liability should not lie merely because a company profits indirectly from infringing use. Any technology company that sells advertisements will profit in proportion to the size of its user base, but that fact is hardly evidence that a company *actively encourages* its users to infringe copyright. Relatedly, evidence that a business plan was not "commercially viable" without infringing use is insufficient, because (as explained above) that approach is simply a misapplication of the "commercially significant" language in *Sony*. In short, business plans *per se* do not create contributory liability without corresponding acts of active encouragement.

Second, the Court should clarify that the purpose for which a technology has been designed or distributed is irrelevant to any assessment of whether the technology vendor or developer has materially contributed to infringement. Such a standard would inevitably chill the creative process, not least because it could rarely be resolved on summary judgment. Vendors would inevitably become embroiled in litigation that would ultimately curtail innovation and progress.

Third, the mere fact that a vendor or distributor maintains an ongoing relationship with its customers should not give rise to secondary liability. Although the *Sony* Court observed that Sony's involvement with Betamax users ended at the time of sale, no such product/service distinction is tenable regarding

modern technology. Software updates, technical support, operation of the technology by the vendor or distributor, and similar interactions are both ubiquitous and necessary, and it would be senseless to discourage such socially beneficial ongoing relationships by allowing them to be used as evidence of secondary liability.

Fourth, no act relating to the design, manufacture, general advertising, routine support, or distribution of a technology should give rise to secondary liability if there exists a reasonable possibility that the technology will be used for substantial noninfringing activities. For example, if a vendor designs or redesigns a technology offering in a manner that protects users' anonymity, that design decision is shielded from liability. Likewise, a vendor is not secondarily liable merely because it allows users to download its software anonymously.

Fifth, as noted above, acts that do not relate to design, manufacture, distribution, general advertising, or routine support – and that are therefore not subject to the *Sony* defense – are to be evaluated under the traditional principles of secondary liability, which require either knowing and material contribution to infringement, or profit from infringement and ability to control it. By contrast, a company that engages in facially neutral activities does not become secondarily liable simply because its actions facilitate both infringement and legal activity. For example, an advertising or marketing campaign that merely describes a technology's features is facially neutral.

Finally, the remedy for secondary liability should be narrowly tailored to the underlying violation. Damages should be awarded only for harm directly caused by a company's active encouragement. Moreover, any injunctive relief should be limited to enjoining a defendant from engaging in the conduct that gave rise to liability, and should not prevent distribution of the technology itself. Any injunction against distribution would allow a single plaintiff to shut down a multi-use technology, even if other copyright holders *benefit* from use of the technology. Thus, the *Sony* Court observed that it would be

"extraordinary to suggest" that individual copyright holders could enjoin the distribution or operation of a technology "simply because [it] may be used to infringe copyrights." 464 U.S. at 441 n.21.

II. The Ninth Circuit Misunderstood The Scope Of The *Sony* Defense

The Ninth Circuit affirmed the district court's grant of partial summary judgment to respondents because it agreed that *Sony* required actual knowledge of infringement at a time when respondents could prevent that infringement. See Pet. App. 10a-13a. The court of appeals observed that respondents' peer-to-peer architecture transmitted infringing files directly from one user to another, never passing through respondents' servers. Pet. App. 14a-15a. Furthermore, unlike in *Napster*, the Grokster and StreamCast software did not depend on the vendor's file servers to index shared files – as the court put it, "even if [Grokster and StreamCast] 'closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.'" Pet. App. 13a. The Ninth Circuit therefore observed that, although respondents had actual knowledge of infringing files, that knowledge was "irrelevant because [it] arrive[s] when Defendants do nothing to facilitate, and cannot do anything to stop, the alleged infringement of specific copyrighted content." *Ibid.* (internal quotations omitted). On that basis, the Ninth Circuit affirmed partial summary judgment in favor of respondents.

That analysis, although factually correct, was misguided and unnecessary – the district court and Ninth Circuit simply asked the wrong question because they were constrained by the Ninth Circuit's erroneous ruling in *Napster I*. There, the Ninth Circuit concluded that the *Sony* defense focuses on knowledge, not conduct:

> If the product at issue is not capable of substantial or commercially significant noninfringing uses, then the copyright owner need only show that the defendant had constructive knowledge of the infringement. On the other hand, if the product at issue *is* capable of substantial or commercially significant noninfringing uses, then the copyright owner must demonstrate that the defendant had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement.

Pet. App. 10a (citing *Napster I*, 239 F.3d at 1027). Properly understood, however, the *Sony* rule defines not the type of knowledge required, but the type of conduct protected.[6] Actions taken and decisions made in the course of designing, manufacturing, distributing, and routinely supporting a technology do not give rise to contributory liability if that technology is capable of substantial noninfringing uses, for liability based on an "infringing design" theory would allow a copyright owner to prevent others from marketing socially useful technologies.

In contrast, it is well established that if companies actively encourage specific copyright infringement through conduct (beyond the design, manufacture, distribution, general advertising, and routine support of technology) in a manner that materially contributes to the infringing activity, coupled with knowledge of that infringement, they may be contributorily liable for harm that directly results from such conduct. See pages 15-17, *supra*. If respondents actively encouraged users to infringe copyrights using their software in a manner that materially contributed to the infringement, they may be

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[6] In fact, the *Sony* Court's approach is remarkable for its *lack* of focus on the knowledge element of contributory infringement. In part III of the *Sony* opinion, see 464 U.S. at 434-42, where the Court set forth the "substantial noninfringing uses" rule, the Court referred to contributory infringement at least eleven times while mentioning knowledge only once. That sole instance occurred when the Court observed that, if Sony were to be secondarily liable for infringement, it could be due only to Sony's possession of constructive knowledge that the Betamax was used for infringement (that being the only sort of knowledge consistent with the record). *Id.* at 439.

secondarily liable for that conduct. But, because the district court and Ninth Circuit were constrained by the erroneous *Napster I* precedent, neither asked whether respondents had engaged in conduct that met this standard.

III. The Seventh Circuit Effectively Refused To Apply *Sony*

Whereas the Ninth Circuit in this case misunderstood the scope and thrust of the *Sony* defense, the Seventh Circuit all but abandoned the defense due to its mistaken belief that it would have shielded Aimster from contributory liability. In doing so, it made two distinct mistakes that would have devastating effects if embraced by this Court.

A. The Seventh Circuit Improperly Engrafted A Balancing Test Onto The *Sony* Defense

The Seventh Circuit concluded that it is not sufficient for a technology offering to be capable of substantial noninfringing uses; rather, "when a supplier is offering a product or service that has noninfringing [uses] as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement." 334 F.3d at 649. "[I]f the infringing uses are substantial then to avoid liability as a contributory infringer the provider of the service must show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses." *Id.* at 653.

The Seventh Circuit's balancing approach finds no basis in the *Sony* opinion. Although four Justices dissented, not one implied that, following a showing of substantial noninfringing use, secondary liability could be resurrected if the copyright owner demonstrates that the technology is actually used for a substantial number of infringing purposes. Indeed, the formulation adopted in *Sony* precludes such an interpretation: if a technology offering "need merely be *capable of* substantial noninfringing uses," *id.* at 442 (emphasis added), it follows that *actual* usage patterns cannot, standing alone, determine liability.

The *Sony* Court confirmed that it meant what it said when it applied the test to the Betamax, explaining that "we need *only* consider whether * * * a significant number of [uses] would be noninfringing." *Id.* at 442 (emphasis added). The substantiality rule was plainly met, the Court reasoned, because many copyright owners did not object to time-shifting and time-shifting was fair use even as to those that did object. Yet, if actual use were relevant, the Court almost certainly could have found that, in practice, the Betamax was *also* employed for a substantial number of infringing uses. It declined even to consider that issue – a fact the Seventh Circuit failed to acknowledge.

Putting aside the obvious impropriety of engrafting a balancing element onto the *Sony* defense, the notion that courts can accurately determine whether eliminating infringing use would be "disproportionately costly" is wishful thinking. The word "disproportionate" implies a comparison of the cost of reconfiguring technology against the ongoing harm to a copyright owner. But the damages alleged in infringement cases are often both enormous and subjective, meaning that, in practice, the "disproportionately costly" standard would *always* favor copyright owners unless the amount of infringing use is effectively zero. As *amici* and other technology leaders are all too aware, that statistic is virtually impossible to achieve. In practice, then, the "disproportionately costly" standard would amount to a rule in which technologies capable of being used for copyright infringement are simply not offered, despite their socially valuable uses. Were that to happen, both business and society would suffer.

B. The Seventh Circuit Improperly Considered Alternative Technology Designs In Determining Contributory Copyright Liability

The Seventh Circuit compounded its misreading of *Sony* by proposing a standard that would embroil courts in deciding among myriad ways of presenting and protecting copyrighted content, an unprecedented and flatly unworkable approach to

liability in the copyright setting. The *Sony* Court never went down that path – because Sony's involvement with Betamax users ended at the point of sale, the majority had no occasion to ask whether Sony could have made design modifications to the Betamax *before* the point of sale to reduce its usefulness for infringing copyrights. The dissent, in contrast, observed that "[r]emedies may well be available that would not interfere with authorized time-shifting at all. * * * Sony may be able, for example, to build a [Betamax] that enables broadcasters to scramble the signal of individual programs and 'jam' the unauthorized recording of them." 464 U.S. at 494 (Blackmun, J., dissenting).

The Seventh Circuit concluded that the majority's silence regarding alternative designs was simply an oversight, and seized on a technology provider's choice among possible designs as evidence of an intent to facilitate infringement:

> Although Sony could have engineered its video recorder in a way that would have reduced the likelihood of infringement, * * * the majority did not discuss these possibilities and we agree * * * that the ability of a service provider to prevent its customers from infringing *is a factor to be considered* in determining whether the provider is a contributory infringer.

Aimster, 334 F.3d at 648 (emphasis added). That is precisely the wrong inference to draw from the *Sony* majority's silence regarding alternative designs. This Court considered the *Sony* case for more than a year and heard oral arguments twice; those facts, combined with the vigorous dissent's mention of alternative design possibilities, strongly rebut any suggestion that the majority simply failed to consider the possibility of alternative designs. Rather, its silence was surely intentional, meaning that it considered the existence of alternative design possibilities irrelevant to the question whether the *current* Betamax design gave rise to contributory copyright liability.

In short, *Sony* instructs that a court should take a technology offering as it exists and simply determine whether that technology, as designed, is capable of substantial noninfringing uses. Contrary to the Seventh Circuit's suggestion in *Aimster*, once a court has determined that there are substantial noninfringing uses, it is inappropriate to engage in an additional balancing test. Use of a balancing test would destroy one of the principal benefits of the *Sony* defense: providing innovators with a clear, objective standard by which to assess the risk of liability.

C. The Seventh Circuit's Approach Would Wreak Havoc In Practice

The *Aimster* approach improperly assigns to courts the role of applying a subjective, indeterminate test that is utterly unlikely to produce an accurate answer (much less one that is predictable in advance by businesses that must operate under it). This is a task for which courts lack the institutional capacity. Moreover, if contributory liability could arise due to the application of the Seventh Circuit's complex balancing test, research and innovation would be significantly chilled, as businesses are forced to worry constantly about liability arising from consumers' unforeseen exploitation of legitimate design choices. Consider the following real-world examples:

1. A provider of an e-mail service allows subscribers to attach files to e-mails sent by the subscribers. A substantial number of the attachments are infringing files. Under an *Aimster* approach, a court could order that the system be redesigned to prevent the sending of any attachments, or any attachments other than text files, which tend to be noninfringing.

2. A company allows individuals to upload photographs onto a website so that other users can view and download them. Although the company designed the service to permit families and friends to share baby pictures and vacation photos, many people also use the service to exchange infringing pictures of

celebrities and magazine centerfolds. A court might mandate that the service be redesigned to require an uploader to identify who he is, or to restrict access to the photos to individuals specifically designated by the uploader.

3. A manufacturer of a portable music player includes storage capacity of far more songs than a typical user purchases in a lifetime. One might argue that this excess capacity encourages some users to download songs illegally. A court might order that the device be redesigned to reduce its storage capacity.

As these scenarios illustrate, the Seventh Circuit's approach to contributory copyright liability would impose substantial economic and social costs on society.[7] The litigation costs alone would be enormous – not only would volumes of expert testimony be required regarding the *chosen* technology, but similar testimony would be required on dozens of hypothetical alternatives. Technology innovators, many of which are relatively small companies, would simply be overwhelmed by litigation expenses.

The impact on society would also be pronounced, because the digital technology product cycle is often as short as six months, with each new release making incremental improvements over the previous release. The Seventh Circuit approach would completely derail this schedule, as attorneys

[7] In practice, the chilling effect would likely fall more heavily on legitimate companies than on those bent on encouraging copyright infringement. Because technology is so mobile, any decision in which a court ordered a relatively small, contributorily infringing company to redesign its software would likely spur that company to distribute its product from a foreign jurisdiction where it would be difficult to enforce United States copyright law. Numerous file-sharing companies are already located offshore, including perhaps the most popular platform, Kazaa. Cf. *Ashcroft* v. *ACLU*, 124 S. Ct. 2783, 2786 (2004) ("COPA's effectiveness is likely to diminish even further if it is upheld, because providers of the materials covered by the statute simply can move their operations overseas.").

would scrutinize each design decision and balance its potential for infringing uses and the availability of alternatives. Even if they approve a new release, content providers may well ask a court to second-guess the cost-benefit analysis. The judicial process will take far more than six months, particularly given the extensive discovery the plaintiff would take of the defendant's engineers.

Petitioners doubtless will insist that they would not challenge basic technologies such as e-mail, search engines, and MP3 players. And petitioners themselves may very well decide not to abuse the power conferred upon them under an *Aimster*-type approach. But the universe of potential copyright plaintiffs is far larger than petitioners, and far less responsible; indeed, legitimate companies such as eBay, AOL, and Google have already been sued for copyright infringement based on providing such services as online auctions, access to usenet groups, and search results that include images. The *Aimster* approach would literally open the floodgates of litigation.

The superior framework is the one *Sony* established, which has proved effective over the course of twenty years of unprecedented technological innovation. In fact, a proper application of the *Sony* rule may well have allowed the Seventh Circuit to find *Aimster* contributorily liable. Aimster's tutorial gave as its *only* examples of file sharing the sharing of copyrighted music, which even the Seventh Circuit recognized was "the invitation to infringement that the Supreme Court found was missing in *Sony*." 334 F.3d at 651. Similarly, Aimster's "Club Aimster" function allowed a user to perform a 1-click download of the 40 most popular songs among Aimster members, all of which were copyrighted. *Id.* at 652. These are precisely the sorts of active encouragements to infringe that the *Sony* "substantial noninfringing use" rule does not protect. Thus, there was simply no need for the Seventh Circuit to blaze new doctrinal trails in order to bring Aimster to justice.

IV. Vicarious Liability Does Not Lie In This Case

Petitioners offer "vicarious liability" as a doctrinal backstop, arguing that even if a technology vendor lacks knowledge of the infringing activity or does not materially encourage it, the vendor may nevertheless be secondarily liable if he directly profits from the infringement and has the ability to control it. Pet. 16. *Amici* believe that the Ninth Circuit in this case correctly rejected vicarious liability on the part of the respondents.

The district court found no evidence in the record that respondents currently had the ability to control the ongoing infringement. Pet. App. 53a-54a. The Ninth Circuit found no factual error in this, and agreed that petitioners' evidence of the right and ability to supervise was little more than a contention that "the software itself could be altered to prevent users from sharing copyrighted files." Pet. App. 19a (internal quotations omitted). The courts below correctly understood that the *Sony* case imposes no obligation on a technology vendor to design its product to avoid or reduce infringement in order to avoid secondary liability. After all, Sony certainly could have redesigned its Betamax device to avoid or reduce infringement, thereby gaining more control over how its device was used, and the dissent expressly noted that possibility (464 U.S. at 494). Nevertheless, as explained above, this Court imposed no such duty. In sum, the ability to have provided a different product is not the kind of "control" sufficient to give rise to vicarious liability – in this or any analogous context – and the courts below correctly rejected liability under a vicarious theory.

V. A Remand Is Warranted To Allow The District Court To Consider The Record In Light Of A Clarified *Sony* Rule

The district court briefing was constrained by the Ninth Circuit's erroneous determination in *Napster I* that the *Sony* rule bears only on the requisite showing of knowledge. On appeal, the Ninth Circuit perpetuated the error, ruling that if a

technology is capable of substantial noninfringing uses, then a higher standard of knowledge is required for imposition of contributory liability with regard to *any* conduct in which the defendant engages. Pet. App. 10a ("[I]f the product at issue *is* capable of substantial or commercially significant noninfringing uses, then the copyright owner must demonstrate that the defendant had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement."). Because the Ninth Circuit found the higher standard of knowledge not met, it essentially ignored any further meaningful analysis of conduct that might have actively encouraged the infringing activity at issue.

Had Ninth Circuit precedent correctly focused the district court and the parties on conduct that encouraged infringement, summary judgment might not have been granted in favor of respondents. Among other things, the record reflected that StreamCast's advertisements featured screen shots of infringing files, including *The Eagles' Greatest Hits*. Pet. C.A. Br. 30-31. In addition, both respondents aggressively cultivated Napster users at a time when the Napster system had been adjudicated to be in violation of the copyright laws: StreamCast advertised itself as "the Alternative Napster network" (Pet. C.A. Br. 10), and Grokster used metatags to attract former Napster users (*id.* at 12). Given the court decisions holding Napster liable as a secondary infringer and Napster's highly publicized shutdown by court order, those actions arguably gave rise to factual issues as to whether the respondents were actively encouraging infringement by users.

In the Seventh Circuit's words, these communications to direct infringers were "the invitation to infringement that the Supreme Court found was missing in *Sony*." 334 F.3d at 651. Indeed, the record may well contain evidence of conduct like that in *Aimster*, where Aimster's software tutorial prominently featured infringing works and the company offered 1-click downloading of the most frequently requested works, all of which were infringing. *Ibid.* Because the record in this case is

sealed, *amici* are unable to provide a comprehensive list of such "invitations to infringement"; on remand, however, the district court will have the opportunity for further evaluation of the record with an eye to conduct that actively invites or encourages infringement.

Although the district court's failure to examine the record for evidence of active encouragement justifies a remand in this case, the Court should nevertheless make clear that the range of potential guilty conduct is quite limited. *First*, active encouragement does not exist merely because a technology vendor profits indirectly from infringing use – *any* business plan based on advertising will profit in proportion to the number of users a technology has, but that fact alone does not demonstrate active encouragement of illegal activity. *Second*, the presence of encouragement is a question of overt acts, and the purpose for which a technology may have been designed plays no part in that inquiry. See note 2, *supra*. *Third*, the fact that a vendor maintains an ongoing relationship with its customers does not, without more, demonstrate encouragement. *Fourth*, no acts relating to the design, manufacture, distribution, or operation (by the vendor or distributor) of a technology that is capable of substantial noninfringing uses could constitute impermissible encouragement. *Finally*, the question whether an act constitutes active encouragement turns on traditional principles of contributory liability.

CONCLUSION

For the foregoing reasons, this Court should vacate the decision of the Ninth Circuit with instructions to remand the case to the district court for further consideration.

Respectfuily submitted.

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JANUARY 2005

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